

# The role of sme's in egypt's development



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**Abstract :**

Big business was often seen as the way to a country's economic growth as in the past large scale firms capable of mass production of goods and services have been the symbol of modern economy , by this measure Egypt's economy has seemed locked in the past , the country's private sector was dominated by a plethora of small workerers .

Trend of the Egyptian government is now focusing on SME'S as a mean of economic and social devlopment , in the late 1990s, the Government of Egypt started asking: rather than depend on a few big firms to increase exports and create jobs, why not make a massive effort to lift thousands of tiny enterprises into growth?

It is a vision that holds promise - a way to boost the economy and create jobs for the hundreds of thousands of disenchantred youth who swell the ranks of the unemployed every year.

The action policy of the government :

To promote (SMEs), government established " The Social Fund for Development (SFD ) , In the year 1991 to deal with

negative consequences of economic development program , and it's contribution to solve the unemployment crisis by providing job opportunity, fund responsibility is to provide and pack resourses, effort , coordination, and the government policy orintation towards the developing of the SMEs.

This research also discuss the historical development and orientation of the SMEs in Egypt , describes the role of the Egyptian government as a participant regulator and a faciator of financial and supportive loans and provision of infra structural facilities.

Discribing the Egyptian experience :

Where role of financial assistance, banks, information centers, institutions, non governmental organizations and universities .

In supporting, providing and developing SMEs in Egypt, will be illustrated.

The research will identify the importance and the advantages of SMEs, which will help in development and growth.

Constratints which may impied the development of SMEs in Egypt will be discussed and justified by means of some advanced relevant recommendations

Introduction:

Small and medium industries in Egypt represent the key of development of the national economy, one of the main elements of social and economic development stratgy, partener in the development process and the motivator for economic and social growth.

SMEs represent 95% to 99% of the total industrial enterprises

99% of the non agricultural projects

80% of the GDP

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## 2. 5 Million enterprises

75% of the total work force

Small firms represents 13% industrial enterprises.

Medium firms represents 46% industrial enterprises.

Large establishments represents 41 % industrial enterprises.

The history of establishment trend showed that up to year 1952, SMEs represents only 1 % of the total establishments.

From year 1953 to 1972 2. 4 % of the total establishments.

From year 1973 to 1992 20. 5% of the total establishments.

From year 1993 to 2009 76. 2% of the total establishments.

The contribution of all sectors (governmental and non governmental) in exerting efforts towards the motivation and supporting of SMEs to achieve the governmental economic, social and technological objectives and to overcome difficulties which may affect its performance bench effectiveness.

Operational defintion of the micro and small industry in Egypt.

The absence of a specific definition of micro, small and medium business is refered to the varity of the criteria coming up from the different ideas as the basis for definition.

The most common are those based on;

Number of employees,

Size of the invested capital,

Fixed capital investment and

Level of developments,

Level of technology and markets.

In Egypt, eight definitions of SMEs are presented among the 14 mentioned in the index of governmental and non governmental organizations .

SME definition in Egypt: the definition depends on the corrolation of two criteria which are the number of employees and the size of the invested capital , on the basis of these criteria the law of investement number 230 for the year 1989 was formulated and approved by the parliment.

The law of small estblishments number 141 for the year 2004 was formulated to define small business .

Small business definition: is any orgnisation which perform an economic activty either by producing goods or providing services with a paid up capital not less than fifty thousand egyptian pounds and not more than one million Egyptian pounds and that the number of employees do not exceed 50 employee.

Micro business definition: is any orgnisation which perform an economic activty either by producing goods or providing services with a paid up capital less than fifty thousand egyptian pounds .

Moreover, the definitions vary in Egypt as some governmental organizations and institutions use definitions of their own :

Ministry of Finance: the definition differentiates between industrial and construction and trade and services sectors .

Ministry of Industry and Commerce: SME'S is defined according to number of employees which vary between ten to one hundred employee .

The National Planning Institute: defines SME'S according to the number of employees (10- 49 )employee .

Egyptian Industrial Development Bank: defines SME'S according to the amount of fixed capital and that the fixed capital does not exceed one hundred thousand Egyptian pounds (excluding the value of the land and the constructions ).

The Egyptian Industrial Union: based upon capital (ten thousand Egyptian pound ) and number of employees criteria (fifty employee or less ).

Historical Development and Orientation of Small Scale Industries in Egypt :

In the year 1916 the Egyptian Government established the “ Commercial and Industrial Committee ” to motivate the development of small industries in Egypt .

In the year 1947 the “ Egyptian Industrial Development ” was established , where a specific sector was specified to manage the small industrial affairs and projects .

In the year 1991 The Social Fund For Development (SFD) to help in encouraging SME'S as a means of combating unemployment and increasing the economic activity in the country .

Types of SME'S :

They include various types among which the entrepreneur may favour one type according to his experience , skills and capabilities , these sectors include :

Industrial sector : includes various activites(printing, toy manufacturing , clothes manufacturing , food manufacturing ) arround 18. 6 % of the total industrial establishments are SME'S.

In the industrial project the raw materials are converted into final products by using appropriate machines and skillfull labour , These products continue to exist and the demand for them can increase if they can compete in terms of quality and pricing and by giving the customers value for their money they are paying .

Commercial sector : It includes supermarkets , pharmcies car distributors , it depends on playing the role of the intermediary between the produce and the consumer arround 46. 7% of the total commercial establishments are SME'S.

Services sector : Includes restaurants , cafes , repair centeres professional offices (lawyers , engineers , consultantats ), are favoured due to thier high revenues without the necessitaty of investing high capital in comparison with

the previously mentioned sectors . around 39. 9% of the total services establishments are SME'S .

The Egyptian Government efforts to develop and support SME'S :

Research Institute in Egypt undertook a general frame work for SME development . They examined the capacity of institutions in Egypt to promote SME growth .

The Government of Egypt turned to Canada for support in generating relevant research that could lay the groundwork for change. In the year2000, the Small and Medium Enterprise Policy Development Project (SMEPol) was created, with the support of Canada's International Development Research Centre (IDRC) and the Canadian International Development agency (CIDA).

Researchers and consultants engaged by SMEPol analyzed Egypt's business environment and existing policies in order to pinpoint clear and specific actions for making improvements. Focusing on issues designated as priorities by the Government of Egypt, they developed recommendations for action-oriented policy reforms.

SMEPol then supported the policy formulation process, in part by providing urgently needed analysis upon request. In addition, researchers examined the capacity of institutions in Egypt to implement measures to promote SME growth. SMEPol's focus on policy development has been complemented by work to share research results, promote dialogue among stakeholders, provide training, and improve research tools.



To bring Government of Egypt staff up to speed, comprehensive training and mentorship program was undertaken. Formal training programs were complemented by international and local study tours. Senior project staff provided mentoring to help officials acquire the knowledge, skills, and attitudes necessary for SME policy-making.

The significant policy changes informed by SMEPol reserchers to the Egyptian government can be summurized as follows :

Providing essential inputs .

Supporting and developing products and production systems (making use of research institutions and universities and service centers ).

-The government contribution by training courses.

Revision of the income tax regime .

Loans and facilities .

The classification of the motivation policies provided by the government :

There are three groups as follows :

First group : it includes motivations which help in removing and elemination of the investement barriers and constraints through :

Providing essential data.

Identifying investement opportunities .

Offering help in feasbility studies .

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Improvement of labor skills .(training courses)

Incubators -needed to provide the suitable environment for the project growth and development .

Second group : it is divided into two sub groups

Sub group (a) : credit policies such as :

Governmental Funds.

Governmental guarantees .

Governmental incentives for more favorable intresets on loans to SME'S .

Loan facility by means of the governmental sectors .

Precising the govedrnmental credit policies

Sub group (b) : financial policies

Such as ;

Tax exemptions .

Tax exemptions on interset .

Other financial exemptions (registration duties -social assurance duties - bussiness tax )

Financial loans and funds .

Financial aid .

Third group :

It includes motivations which leads to increasing revenues and decreasing costs which may be achieved by supporting input prices , export subsidy and supporting national production requirements .

Egyptian experience regarding SME'S :

Since SME'S represent the majority of the economic establishments in Egypt 95%- 99 % of the total establishments compared to large scale enterprises which represents from 1 % - 5% of the total . and as far as the SME'S undergo the process of economic progress with respect to the produced outcome in addition to the social effects of the SME'S as a means of alliviating the unemployment problem , consequently supporting SME'S is a must in order to keep it going effectively and effciently so for this purpose The Social Fund for Development (SFD ) was established in the year 1991 and according to the ministry decision number 12 for rhe year 2004 to consider(SFD) the only responisble for micro and small business starting from the project idea and ending by it's implementation and creating markets for it's products .

The role of different governmental and non governmental orgnisations in enhancing the development and improvement of the SME'S :

First : The Social Fund for Development (SFD ) :

Finacial sources of The Social Fund for Development (SFD ) :

Resources allocated by the government to the (SFD )

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Donations and loans offered by national , regional, and international organisations and foreign governments .

Duties of The Social Fund for Development (SFD ) :

Packing of resources (financial and tecnological resources) both national and international and their imediate use in projects in the services or the production fields .

Targeting exteremly low income categories by providing permenant and temporarlily job opportunities.

The achievement of social and human development .

The improvement of managerial and technical performance of development institutes.

Targeted groups by The Social Fund for Development (SFD ) :

Inhabitants of areas of absent services and utilities .

Fresh graduated youth .

Low income group categories .

Women .

People affected by economic development program .

Objectives of The Social Fund for Development (SFD ) :

Providing job opportunities through it's financial policy .

Achievement of social development .

Various policies to match all included targeted groups.

-Providing all possible opportunities to start micro and small business.

Providing loans.

Encouraging banks to join the fund in offering loans and providing banking facilities .

Non financial assistance such as training courses exhibtions.

Creation of suitable environment for the small business start and growth.

Encourage youth to realize their aspirations .

SECOND : The role of the banks.

Encouraging banks to offer loans to support SME'S .

Providing banking facilities to SME'S .

Encouraging banks to change it's absolute commercial trend and adopt a development approach in dealing with SME'S.

THIRD : The role of the information and commercial centers .

- All the available data for creation and innovation in case of SME'S projects should be transmitted easily and transparently .

- Using all the networks helping in the activation of the SME'S establishment in Egypt.

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- Reaching all data related to skill development and using appropriate technology and market expansion.

FOURTH : The role of the donating parties and countries .

Donations in the form of technical and technological aid .

Donations of funds directed to encourage certain sectors in the economy which requires development and of these sectors is the encouragement of the establishment and development of SME'S.

The role of SME'S in economic development in Egypt :

Providing job opportunities with limited capital in a way to alleviate the unemployment problem in Egypt especially among the university graduates youth trying to start their practical lives.

Playing an important role in economic development in Egypt by reducing the imports in the areas of the feeding industries , for example several sme's wre established to produce spare parts related to electronic industries , t. v's spare parts .

SME help in decreasing the cost of infrastructre as SME'S requires a relatively limited area .

Processes and products are flexible to cope with the ever changing circumstances.

The role of SME'S in social development in Egypt :

Egypt is characterised by being highly populated country (over eighty million people ) and by helping and facilitating the establishment of the SME'S in the country side and the rural areas will limit the flow of people looking for job opportunites from leaving their areas and going to the over crowded major cities .

Training improve the workers skills which in it's turn help in the development of the industries which leads to the motivation and self confidence of the workers .

SME'S development lead to increase in financial and social levels of workers .

Obstacles facing SME'S in Egypt :

1 - Taxing systems :

- High estimation of taxes even for low income category .
- High tax rates .

2 - Marketing problems :

- Failure and defciency in local market canals and networks .
- Lack of internal and external market information
- Insufficient resources.
- Weak corrolation between SME'S and large scale enterprises .
- Low investment in the field of market research and advertisements.

### 3- Financial barriers :

- Difficulties to offer SMEs official financial services, which in turn act as a working or fixed capital in a permanent way.

The reason behind this, is the high loan costs of these projects beside the unavailability of the used loan criteria and restrictions with the requested documents and guarantees.

### 4- Training and technological support :

- SMEs products are of low quality and they are not considered as complete product.

-Lack of appropriate information about markets required local and information customer requirements.

-Production of poor quality products ( absence of quality product qualification ).

### 5- Lack of skills and well trained workers :

-for products requirements which necessitates training labor within the project which may be a burden and increase costs.

### 6- Governmental procedures :

These procedures are complicated and highly costly which may result in the deviation of the project activities away from the legal and official frames, more over, difficulties related to obtaining licences and agreements.



## 7- Supervision :

Which may act as a barrier , to implement clear strategy for the development of these projects to avoid these difficulties

to remove all obstacles and barriers and to help SMEs to be improved and developed correlation of different sectors in Egypt which are :

the governmental side

the educational system.

Banking and financial system.

## Recommendations :

There are three interrelated areas which need more attention in order to encourage the growth and development of SME'S in Egypt :

First the role of the government :

Putting SME encouragement as one of the strategic priorities in both short term and long term plans of development .

Ministry of trade and industry in collaboration with industrial and commercial chambers must have a working plan for industrial innovation as well as an integrated program of product quality and product safety .

Procedures facilitation : allowing temporary licences which should be transformed into permanent licences by the power of law within the period of thirty days .

Legal protection according to the law number 141 for the year 2004 to identify the rights and duties and SME'S rights protection .

Tax exemption to the SME for five years from the date of establishment.

Availability of statistics and appropriate data to facilitate market research and study .

Making use of E. Commerce advantage (internet marketing services )

Developing project incubators which is an integerated system that provide an appropriate environment for the project growth for a limited time interval 1 - 3 years , all supportive aids and requirements are delivered to strength the project . Government should provide land for the incubator establishments to help young enterpreners to manage their products later by themselves.

Training centers : help in training students of the various universities.

Training centers include :

Wooden training centers

Electric training centers

Electronic training centers .

Loans to specific finacial fund through which loans can be offered with appropriate facilities .

Markets and exhibitions providing marketing opportunities locally and internationally.

Second: the role of the educational system, schools , research centers and universities :

- Replanning and reconstruction of educational system and programs by including enterprenership as one of the educational courses in a way to help the Egyptian society to provide young enterpreneres to the job market .
- Creation of spcialized enterprenership units in the educational institutions to spread the enterprenership culture among students .
- Establish a database on SME'S.

Third: the role of the banking sector :

Using credit guarantees .

Bank loans and facilities .

Venture capital

Franchising .

Factoring.

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